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PROVISIONAL INTELLIGENCE REPORT

THE EFFECTS OF SOVIET DEVELOPMENTAL POLICY ON INDUSTRIAL INVESTMENT AND PRODUCTION IN RUMANIA



CIA/RR PR-158

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PROVISIONAL INTELLIGENCE REPORT

THE EFFECTS OF SOVIET DEVELOPMENTAL POLICY
ON INDUSTRIAL INVESTMENT AND PRODUCTION IN RUMANIA

CIA/RR PR-158

(ORR Project 32.1060)

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FOREWORD

The objectives of this report are to explain Soviet policy on economic development and to measure the results of this policy against the development of the Rumanian economy. The success or failure of Soviet policy may be shown by comparing planned with actual expenditures on investment in Rumania; by determining the growth of national income and the relative shares of the national income devoted to investment and to consumption; and by showing the movements of industrial production, particularly of production of producer goods and consumer goods. Moreover, the methodology and the findings of this report provide a useful pattern for similar studies of Soviet patterns of economic development in other Satellite countries.

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THE EFFECTS OF SOVIET DEVELOPMENTAL POLICY
ON INDUSTRIAL INVESTMENT AND PRODUCTION IN ROMANIA*

Summary

The impact of the Soviet policy of economic development on the economy of Rumania illustrates the strengths and weaknesses of this policy as applied to underdeveloped economies.

Under the original provisions of the First Five Year Plan (1951-55), 18.4 percent of the total national income of Rumania during the 5-year period was to be allocated to investment.** The success of the first 2 years of the Plan induced the government to raise the share of the national income allocated to investment to 29 percent in 1953. As a direct result of popular discontent and of "new course" policies, however, the share of the national income allocated to investment was drastically reduced to 16.7 percent in 1954 and 15.7 percent in 1955. Nevertheless, the share of national income actually spent on investment under the First Five Year Plan was considerably more than originally planned, being 21 percent for the 5-year period. The actual levels of national income and of investment during the years of the First Five Year Plan were as follows:

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
National income (billion 1952 lei***)	49.5	53.7	59.7	62.7	74.6
Investment (billion lei)	9.9	13.6	17.3	10.5	11.7
Investment as a percent of national income	20.0	25.4	29.0	16.7	15.7

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 March 1957.

** For the purpose of this report, investment is defined as the increment, or gain, in total capital stock. Lagged investment is defined as the incremental increase in capital stocks in an earlier but overlapping period of equal length in which an incremental increase in national income occurred. Incremental national income is defined as the gain in national income under the First Five Year Plan. The period during which the incremental increase in capital stocks is measured is 1950-54.

*** Unless otherwise noted, all references to Rumanian lei are in terms of 1950 Rumanian prices, weighted to indicate the revaluation

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Although Rumania did not achieve the rate of growth of national income planned in the First Five Year Plan, the national income increased nearly 90 percent, from 39.3 billion lei in 1950 to 74.6 billion lei in 1955.* Substantial increases were registered in industrial capacity and production. In particular, production of electric power and of crude oil in 1955 more than doubled compared with 1950. Production of coal increased 59 percent compared with 1950; steel, 80 percent; sulfuric acid, 78 percent; footwear, 58 percent; and sugar, 55 percent.

The heavy emphasis placed by the Plan on investment in producer goods industries caused imbalances in the economy. These imbalances, in turn, had serious political and economic effects and were corrected only partially by the "new course" adopted in 1953. Consumer goods were in very short supply, and serious inflation resulted, necessitating a monetary reform to reduce the purchasing power of consumers. The inflation led to a disruption in the distribution of consumer goods and services, and economic activity was retarded. The scarcity and the high cost of consumer goods seriously damaged public morale. Popular discontent with the regime, caused in part by the inability of workers to raise their standard of living appreciably by increasing their earnings, fostered absenteeism and reduced the willingness of workers to extend their physical effort.

Because prices did not reflect the costs of production and the planning commission in Rumania had little experience in planning procedure and management, serious errors were made in the allocation of resources. Work was begun on a number of construction and industrial projects either which were abandoned or which required years more to complete than originally had been planned. Consequently, valuable materials and labor were wasted. The refusal of the central planning commission to recognize the limitations of Rumanian natural resources in formulating plans for the development of the economy resulted in the allocation of large investments to the coal and metallurgical industries, even though Rumanian deposits of coal and iron ore were deficient.

There are indications in the Second Five Year Plan (1956-60) that some of these gross errors committed in the First Five Year Plan have

of the leu in the currency reform of 1952. At the official rate of exchange, 6 lei equal US \$1.

* For a discussion of Soviet concepts of national income, see II, p. 4, below.

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been recognized and are to be avoided through better planning procedures and through the coordination of the plans for investment with those of the other European Satellites.

Under the Second Five Year Plan the share of the national income to be allocated to investment was set at 23 percent, only 2 percent above the level achieved under the First Five Year Plan but appreciably below the accelerated level of 29 percent which was reached in 1953.

The following tabulation shows the planned levels of investment and national income under the Second Five Year Plan compared with those planned and achieved under the First Five Year Plan:

	First Five Year Plan (1951-55)			Second Five Year Plan (1956-60)
	<u>Initial Plan for the Period</u>	<u>Accelerated Plan for 1953</u>	<u>Actual Realization for the Period</u>	<u>Initial Plan for the Period</u>
National income (billion 1952 lei)	361.2	N.A.	300.2	457 to 479
Investment (billion 1952 lei)	66.5	N.A.	63.0	105 to 110
Investment as a percent of national income	18.4	29.0	21.0	23.0

I. Introduction.

The development of the Rumanian economy since the Communists assumed control in 1948 provides a guide for judging the effectiveness of Soviet policy on investment in underdeveloped economies. The Second Party Congress of the Rumanian Workers Party (Partidul Muncitoresc Romin -- PMR), the Communist Party of Rumania, held at the end of

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December 1955 in Bucharest, released considerable statistical and economic information. This information permits some measurement of the effectiveness of Soviet policy on investment in fostering a rapid growth of industrial capital stocks. In addition, by relating the statistics on planned and actual investment within different industries to their respective increases in production, it is possible to observe which industries yield the greatest returns on investment for increased production, to analyze the alternatives for investment which are open to the Rumanian government, and to evaluate the choices made by the government.

II. Soviet Policy on Economic Development.

In order to evaluate the Rumanian program for economic development, it is necessary to understand the underlying Soviet concepts of economic development. Soviet policy on economic development is based on a program of planning which rigidly allocates between investment and consumption the resources available to the economy. In practice, this division of resources allocates 25 percent of the national income to the accumulation fund* and 75 percent to the consumption fund. The accumulation fund is devoted to expanding this stock of fixed capital (plant and equipment); to building up inventories of goods, including those inventories owned by the state and called "state reserves"; to increasing the amount of work in progress (unfinished inventories of goods); and to raising the reserves of gold and foreign exchange. The consumption fund (the larger of the two funds) comprises the wages of labor; the bulk of military expenditures; expenditures for social and cultural purposes, such as hospitals and education; and outlays for depreciation and maintenance of what Soviet economists have labeled non-productive capital, such as housing. Because the consumption fund includes much more than payments to the workers, it is not a measure of the income of consumers and must not be confused with the concept of disposable income found in Western economies, which measures the total income available to the general public for saving or spending after payment of income taxes.

* The Soviet accumulation fund is not comparable either with the Western measure of net investment or with gross fixed capital formation. The accumulation fund measures new investment -- gross investment less retired equipment -- rather than net investment because current provisions for depreciation and repairs are excluded.

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The planning program also allocates the amount of resources assigned to each industry. Priority in the allocation of resources to industry is given to the producer goods industries, such as electric power, iron and steel, and machine building. Only secondary priority is given to the consumer goods industries, such as processed foods (canning), textiles, and footwear.

In Soviet economic theory the rationale for assigning priority in the allocation of resources to the producer goods industries is the belief that the greatest increase in total production of any economy can be achieved only by first building up the capacity (plant and equipment) of those industries which make the tools and the equipment needed for production of other goods. Increased productivity becomes primarily a function of the increase in the supply of machinery, which must be constructed and available before there can be any significant improvement in standards of living. Soviet economists believe that resources must be rationed in favor of the producer goods industries if an economy is to become independent of foreign sources of supply for machinery and to raise its level of total production. Otherwise, according to Soviet economists, resources will be frittered away by raising standards of living, and virtually nothing will remain for the building up of stocks of capital equipment to produce such industrial goods as tractors, automobiles, railroad equipment, and hydroelectric equipment, on which the productive capacity of any economy fundamentally rests.

The USSR has incorporated these concepts into two laws called the basic economic law of socialism and the law of planned proportionate development. These two laws do not tell the planning commission precisely how to allocate resources between investment and consumption or among industries. Instead, these laws are statements of the goals that the planning commission seeks to attain in its allocation of resources.

The basic economic law of socialism is defined as "the securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society through the continuous expansion and perfection of socialist production on the basis of highest techniques." ¹/_{*} According to the law of planned proportionate development, the expansion and perfection of socialist production is not to be retarded by bottlenecks in production, by accumulations of

* For serially numbered source references, see Appendix C.

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inventory in excess of the requirements of any industry, or by an insufficiency of consumer goods to meet the needs of the general public. In the ideal organization of a Soviet economic society the basic economic law of socialism implies that there is to be continuous improvement in standards of living, and this improvement is to accompany a continuous increase in industrial production per unit of industrial investment. ^{2/} Moreover, according to the law of planned proportionate development, this goal is to be accomplished by an allocation of resources which will assure an internal consistency among all the demands made by the economy for the allocation of resources and for the supply of those resources.

The most significant fact about the Soviet theory of economic development is that nowhere does the theory offer any useful or detailed guide to determine the proportion of resources to be allocated to investment or to consumption or how resources should be divided among competing industries. Any allocation of resources by the planning commission can be claimed to conform to the law of planned proportionate development and to the basic economic law of socialism. If, as happened in Rumania, the allocation chosen is not realistic and results in an economic crisis, the planning commission is usually accused of having violated in some way these two basic economic laws of socialism.

In Western economies the problems of allocating resources between investment and consumption and among competing industries can be answered in part by (1) the price that must be paid by the entrepreneur for the resource or by (2) the interest rate that must be set by the money market to induce the consumer to save instead of spend his income. Under Soviet economic theory and practice, prices cannot perform this function. In Soviet economics the price of producer goods is fundamentally only a cost of supply -- that is, the cost required to produce goods or services. The ability to buy in the open market, however, does not determine the final owner. Arbitrary allocation according to plan sets the limits within which the industry may or may not receive a desired resource. Soviet prices and industrial profits cannot be used as a yardstick, therefore, in deciding which of several competing industries will receive what resource.

The desire in economies of the Soviet type to foster the growth and expansion of the producer goods industries rather than the consumer goods industries further implies that the Soviet theory of

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economic development is designed to foster economic self-sufficiency. Considerations of the nature and of the general availability of natural resources have not been given great weight in this theory. For example, the lack of deposits of good coking coal and iron ore did not deter the Rumanian planning commission from insisting upon a metallurgical industry and providing for heavy investments in that industry.

Thus the pattern of Soviet economic development poses difficult problems for a planning commission in the allocation of resources. First, there must be a decision as to the division in national income between the accumulation fund and the consumption fund. Second, investments from the accumulation fund must be allocated between the producer goods and the consumer goods industries in accordance with some system which gives priority to the producer goods industries. Finally, sufficient resources must be found to permit the consumer goods industries and agriculture to provide continuous improvement in the standards of living. In practice the low priorities accorded to the welfare of the consumer have often resulted in a planned or actual failure to allocate sufficient resources to maintain even the existing standards of living. This violation of the basic economic law of socialism has occurred from time to time both in the USSR and in the European Satellites.

This report is designed to evaluate the decisions taken by the Rumanian government, the planning authorities, and the managers of individual plants to solve these three major problems of allocation which face any economy that has adopted a Soviet pattern of economic development.

III. Rumanian Economy (1945-50).

In the years immediately following World War II, before the Communists assumed complete power in 1948, the Rumanian economy was stagnant, partly because of a Communist design to maintain the country in a badly crippled economic condition, partly because of the effects of the war, and partly because of adverse climatic conditions. Rumania had experienced 2 successive years of drought; its industrial system was bogged down by a heavy load of reparations owed to the USSR; badly needed industrial replacements were difficult to obtain from abroad; and the Rumanian currency was seriously inflated, thus producing a sharply rising cost of living. The war itself had caused damage to the economy estimated by a Soviet economist as being equal

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to the prewar Rumanian national budget for 12 years. 3/ Production of basic commodities in 1945 was only 43 percent of the level reached in 1938. 4/ Over-all industrial production in 1946 has been estimated at 48 percent of that in 1938 and production in 1947, at 61 percent of that in 1938. 5/

With the adoption of a new constitution in March 1948 and the nationalization of industry, the socialization of the Rumanian economy commenced. To implement the vast bureaucratic decisions required of a socialized economy, a policy of central planning was adopted soon after the nationalization of industry. A planning commission was set up on 2 July 1948, and in the fall of 1948 the First One Year Plan was announced.

The One Year Plans of 1949 and 1950 were designed to enable the economy to recover from the effects of World War II and to lay the foundation for an ambitious Five Year Plan based on the Soviet model. During this period of One Year Plans, total investment in the economy amounted to about 13.5 billion lei. Although actual industrial investment under each Plan is not known, plans for industrial investment were as follows 6/:

Sector	1949 Plan		1950 Plan	
	Billion 1952 Lei	Percent	Billion 1952 Lei	Percent
Producer goods industries	1.5	78.9	3.3	78.6
Consumer goods industries	0.4	21.1	0.9	21.4
Total	<u>1.9</u>	<u>100.0</u>	<u>4.2</u>	<u>100.0</u>

It would have been impossible for the industrial economy to recover from the war and the postwar losses as quickly as it did without extensive outside aid. Some aid from the USSR made possible urgent replacements as well as the construction of new plants and equipment. Between 1947 and 1949, Rumania received from the USSR 100,000 metric tons* of iron ore, 130,000 tons of coal, 2,600 tractors,

* Tonnages are given in metric tons throughout this report.

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286 locomotives, 2,400 trucks, and 106 machine tools. In the first three quarters of 1949 alone, Rumania received 55 percent of its coke, 47 percent of its ball bearings, 91 percent of its cotton, and 100 percent of its synthetic rubber from the USSR. 7/ Since 1950 the machine tool factory at Arad, the ball bearing factory at Moldova, the Ovidiu No. 2 and the Red Star thermal power stations, and other metallurgical and chemical factories all have been completely set up and equipped by the USSR. 8/

IV. First Five Year Plan (1951-55).

A. Investments.

1. Planned Versus Actual.

Under the First Five Year Plan (1951-55), 66.5 billion lei were to be invested in the economy. 9/ By 1955, industrial production was to be 2.44 times that in 1950 10/; national income, 2.6 times that in 1950; and the volume of consumer goods available to the public, 2.17 times that in 1950. 11/ During the same period the productivity of labor in industry was to increase by 75 percent 12/ and the general standard of living, by 80 percent. 13/

To accomplish this tremendous increase in economic activity and at the same time to maintain the morale of the population at a satisfactory level, the investment of 66.5 billion lei under the First Five Year Plan was to be divided among the different economic sectors as shown in Table 1.* Actual investment, however, amounted to 63 billion lei. Moreover, the eventual distribution of the investment among the different economic sectors did not correspond to the original Plan. Table 1 shows the planned and actual investment under the First Five Year Plan and the planned investment under the Second Five Year Plan (1956-60).

As shown in Table 1, total investment in industry exceeded the Plan. Within the industrial sector, however, investment in the consumer goods industries amounted to less than 76 percent of the goal, whereas investment in the producer goods industries exceeded the goal by nearly 14 percent.

* Table 1 follows on p. 10.

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Table 1
Total Investment in Rumania
Under the First and Second Five Year Plans a/
(1951-60)

Economic Sector	First Five Year Plan (1951-55)						Second Five Year Plan (1956-60)					
	Planned		Actual		Actual over (+) or under (-) Planned		Planned		Planned		Actual	
	Billion 1952 Lei		Billion 1952 Lei		Billion 1952 Lei		Billion 1952 Lei		Billion 1952 Lei		Billion 1952 Lei	
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Industry and construction												
Industry												
Producer goods	28.0	42.1	31.8	50.6	+3.8	+13.6	53.8	50.0	+25.8	+92.1	+22.0	+69.2
Consumer goods	6.2	9.3	4.7	7.4	-1.5	-24.2	6.4	6.0	+0.2	+3.2	+1.7	+36.2
Total industry	<u>34.2</u>	<u>51.4</u>	<u>36.5</u>	<u>58.0</u>	<u>+2.3</u>	<u>+6.7</u>	<u>60.2</u>	<u>56.0</u>	<u>+26.0</u>	<u>+76.0</u>	<u>+23.7</u>	<u>+64.9</u>
Construction	1.3	2.0	2.9	4.6	+1.6	+123.1	2.7	2.5	+1.4	+107.7	-0.2	-6.9
Total industry and construction	<u>35.5</u>	<u>53.4</u>	<u>39.4</u>	<u>62.6</u>	<u>+3.9</u>	<u>+11.0</u>	<u>62.9</u>	<u>58.5</u>	<u>+27.4</u>	<u>+77.2</u>	<u>+23.5</u>	<u>+59.6</u>
Transportation and communications	10.8	16.2	7.1	11.2	-3.7	-34.3	12.4	11.5	+1.6	+14.8	+5.3	+74.6
Agriculture and forestry	6.7	10.0	6.5	10.4	-0.2	-3.0	13.4	12.5	+6.7	+100.0	+6.9	+106.2
Housing	2.1	3.2	2.4	3.8	+0.3	+14.3	5.9	5.5	+3.8	+181.0	+3.5	+145.8
Domestic trade	1.4	2.2	1.6	2.5	+0.2	+14.3	2.7	2.5	+1.3	+92.9	+1.1	+68.7
Social and cultural expenditures	6.8	10.2	6.0	9.5	-4.0	-40.0	7.5 b/	7.0 b/	+0.7 b/	+10.3 b/	+4.2 b/	+70.0 b/
Miscellaneous	3.2	4.8 c/					2.7	2.5 d/	-0.5	-15.6		
Grand total	<u>66.5</u>	<u>100.0</u>	<u>63.0</u>	<u>100.0</u>	<u>-3.5</u>	<u>-5.3</u>	<u>107.5 e/</u>	<u>100.0</u>	<u>+41.0</u>	<u>+61.7</u>	<u>+44.5</u>	<u>+70.6</u>

a. Because both planned and actual investment are given in 1950 prices, the percentage distribution measures actual shifts in real resources.

b. Includes communal holding (3 percent), education and culture (2.5 percent), and scientific institutions (1.5 percent).

c. Includes state administration (2 percent) and scientific and geological exploration (2.8 percent).

d. Undefined category.

e. Total planned investment in 1956-60 is between 105 billion and 110 billion lei. The average, 107.5 billion lei, is the amount which it is assumed will be invested.

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Table 2* compares planned and actual industrial investment under the First Five Year Plan and planned industrial investment under the Second Five Year Plan. Especially noteworthy are the sharp increases in investment in the extractive industries -- coal and petroleum and gas -- and the decreases in the textile and footwear industries. The extractive industries alone received 13 billion lei, or 35.6 percent of all industrial investment, in 1951-55 and account for more than one-third of total industrial investment planned for 1956-60.

Four developments were largely responsible for the increase in investment in the extractive industries. First, the prospects improved for increasing the extraction of mineral resources, particularly crude oil. Second, investment in the extractive industries offered greater marginal and total returns than did investment in the iron and steel industry. Third, the shortage of turbines for generating electric power forced curtailment of investment in the electric power industry. Finally, planning within the Soviet Bloc became a more important consideration in making decisions on investment.

An analysis of the differences between the planned and actual investment under the First Five Year Plan is shown in Table 3.** The sum of all shifts in total investment (increases plus decreases) amounted to 23.5 billion lei. Decreases in investment totaled 13.5 billion lei and increases in investment, 10 billion lei. The decrease in total net investment amounted to 3.5 billion lei.

The sum of the shifts in industrial investment amounted to 13.5 billion lei. Most of the increased investment in various industries resulted from a redistribution of expenditures. The decrease in investment in the electric power and in the iron and steel industries provided 45 percent of the 6.9 billion lei used to increase investment in the other producer goods industries. Investment in the textile, the readymade clothing, and the footwear industries was reduced by 2.5 billion lei, thus providing sufficient funds to finance increased expenditures in the other consumer goods industries and about 22 percent of the increased investment for the other producer goods industries (6.9 billion lei). Because of the redistribution of industrial investment, nearly 71 percent of the increased investment***

* Table 2 follows on p. 12.

** Table 3 follows on p. 13.

*** Continued on p. 15.

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Table 2
Industrial Investment in Rumania
Under the First and Second Five Year Plans a/
(1951-60)

Industry	First Five Year Plan (1951-55)						Second Five Year Plan (1956-60)					
	Planned		Actual		Actual over (+) or under (-) Planned		Planned		Planned		Actual	
	Billion 1952 Lei	Percent	Billion 1952 Lei	Percent	Billion 1952 Lei	Percent	Billion 1952 Lei	Percent	Billion 1952 Lei	Percent	Billion 1952 Lei	Percent
	1956-60 Planned over (+) or under (-) 1951-55											
Producer goods												
Petroleum and gas	6.4	18.6	10.3	28.3	+3.9	+60.9	15.4	25.5	+9.0	+140.6	+5.1	+9.5
Electric power	7.3	21.3	4.8	13.1	-2.5	-34.3	6.6	11.0	-0.7	-9.6	+1.8	+37.5
Iron and steel	4.3	12.6	3.7	10.0	-0.6	-14.0	7.3	12.0	+3.0	+69.8	+3.6	+97.3
Machine building and processed metals	2.5	7.5	3.1	8.6	+0.6	+24.0	2.7	4.5	+0.2	+8.0	-0.4	-12.9
Chemical industry	1.0	4.6	1.7 b/	4.7	+0.1	+6.2	7.8 g/	13.0 g/	+5.6 g/	+254.5 g/	+5.0 g/	+178.6 g/
Coal industry	1.3	3.8	2.7	7.3	+1.4	+107.7	4.8	8.0	+3.5	+269.2	+2.1	+77.8
Nonferrous metals	1.8	5.2	2.2	6.0	+0.4	+22.2	3.9	6.5	+2.1	+116.7	+1.7	+71.3
Building materials	1.6	4.7	1.9	5.2	+0.3	+18.7	2.7	4.5	+1.1	+68.8	+0.8	+26.1
Forestry and wood	1.2	3.5	1.4	3.9	+0.2	+16.7	2.4	4.0	+1.2	+100.0	+1.0	+71.4
Total	28.0	82.0	31.8	87.1	+3.8	+13.6	53.6 g/ d/	82.0 g/ d/	+28.0 g/	87.4 g/	+20.1 g/	+62.9 g/
Consumer goods												
Textiles, readymade clothing, and footwear	3.4 g/	10.0	0.9	2.5	-2.5	-73.5	3.0 e/	5.0	-0.4	-11.8	+2.1	+233.3
Cellulose and paper	0.6	1.6	1.1 b/	3.0	+0.5	+83.3	g/	g/	g/	g/	g/	g/
Food	1.6	4.7	1.9	5.1	+0.3	+18.7	2.7	4.5	+1.1	+68.8	+0.8	+26.1
Other g/	0.6	1.7	0.8	2.3	+0.2	+33.3	0.9	1.5	+0.3	+50.0	+0.1	+12.5
Total	6.2	18.0	4.7	12.9	-1.5	-24.2	6.6 g/ d/	11.0 g/ d/	+1.0 g/	+17.9 g/	+3.0 g/	+83.3 g/
Grand total	34.2	100.0	36.5	100.0	+2.3	+6.7	60.2 h/	100.0	+26.0	+76.0	+23.7	+64.9

a. Values are given in 1950 prices.

b. Estimated by deducting investment for textiles, food, and other branches of the consumer goods industries (3.6 billion lei) from total investment in consumer goods industries (4.7 billion lei).

c. The Second Five Year Plan includes cellulose and paper as part of the chemical industry and, therefore, among producer goods. Because investment for cellulose and paper cannot be separated from total investment for chemicals in the Second Five Year Plan, the percentage and absolute differences have been calculated only for the combined chemical and cellulose and paper industries.

d. Because of rounding, the figure given for total investment planned for producer goods is slightly lower and that for consumer goods is slightly higher than the figures given in Table 1, p. 10, above. The figure for total industrial investment, however, is the same in both tables.

e. Investment for footwear amounted to 1.4 percent of total planned industrial investment in 1951-55.

f. Includes furniture.

g. Includes local industry and artisan cooperatives.

h. Total planned investment in industry is between 58.8 billion and 61.6 billion lei. The average, 60.2 billion lei, is the amount which it is assumed will be invested.

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Table 3

Analysis of Differences Between Planned and Actual Investment
in Rumania Under the First Five Year Plan
(1951-55)

Economic Sector	Billion 1952 Lei			
	(1)	(2)	(3)	(4)
	Shift in Investment			
	Increase in Investment	Decrease in Investment	Total <u>a</u> /*	Net <u>b</u> /
Industry and construction				
Industry				
Producer goods				
Petroleum and gas	3.9			
Electric power		2.5		
Iron and steel		0.6		
Machine building and processed metals	0.6			
Chemicals	0.1			
Coal	1.4			
Nonferrous metals	0.4			
Building materials	0.3			
Forestry and wood	0.2			
Total producer goods	<u>6.9</u>	<u>3.1</u>	<u>10.0</u>	<u>+3.8</u>
Consumer goods				
Textiles, readymade clothing, and footwear		2.5		
Cellulose and paper	0.5			
Food	0.3			
Other	0.2			
Total consumer goods	<u>1.0</u>	<u>2.5</u>	<u>3.5</u>	<u>-1.5</u>

* Footnotes for Table 3 follow on p. 14.

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Table 3

Analysis of Differences Between Planned and Actual Investment
in Rumania Under the First Five Year Plan
(1951-55)
(Continued)

Billion 1952 Lei				
	(1)	(2)	(3)	(4)
	Shift in Investment			
Economic Sector	Increase in Investment	Decrease in Investment	Total <u>a/</u>	Net <u>b/</u>
Total industry	<u>7.9</u>	<u>5.6</u>	<u>13.5</u>	<u>+2.3</u>
Construction	<u>1.6</u>		<u>1.6</u>	<u>+1.6</u>
Total industry and construction	<u>9.5</u>	<u>5.6</u>	<u>15.1</u>	<u>+3.9</u>
Other				
Transportation and communications		3.7		
Agriculture and forestry		0.2		
Housing	0.3			
Domestic trade	0.2			
Social, cultural, and miscellaneous		4.0		
Total other	<u>0.5</u>	<u>7.9</u>	<u>8.4</u>	<u>-7.4</u>
Grand total	<u>10.0</u>	<u>13.5</u>	<u>23.5</u>	<u>-3.5</u>

a. The sum of columns 1 and 2.

b. The difference between columns 1 and 2.

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in particular industries was financed within the industrial sector. Sharp decreases in investment in transportation and communications and in social and cultural projects accounted primarily for the other increases in industrial investment.

2. "New Course."

In August 1953, Rumania, together with the USSR and the other European Satellites, adopted a new economic policy, the so-called "new course." This policy lowered somewhat the primary position held by the producer goods industries in the allocation of investment and raised the position of the consumer goods industries. At the same time, Gheorghiu-Dej, then Premier of Rumania and Secretary General of the Central Committee of the PMR, admitted that the PMR had been guilty of serious shortcomings in its economic policy. Because industrialization had been forced too rapidly, the accumulation fund, including capital investment, was claiming too large a portion of the national income. Investments had not been properly allocated, and the producer goods industries and construction had absorbed funds needed for the expansion of the consumer goods industries and the development of agriculture. Consequently, the standard of living of the Rumanian people had declined.

To correct the imbalance in the distribution of funds for investment, the share of the national income allocated to the accumulation fund was to be reduced from 32 percent in 1953 to about 28 percent during the remainder of the First Five Year Plan, and investment in the consumer goods industries and agriculture was to be doubled. These two sectors of the economy would then receive increased allocations for investment of 5 billion lei. ^{14/}

The "new course" provided that investment in the producer goods industries be reduced from 42.1 percent of total investment to 34.1 percent and that the share of the consumer goods industries be increased from 9.3 percent to 14.1 percent. ^{15/} As shown in Table 1,* however, the consumer goods industries actually received less and the producer goods industries more than had been intended originally under the First Five Year Plan. The additional funds for investment which were received by the consumer goods industries and agriculture probably came from funds originally allocated to the Danube - Black Sea Canal project, which was abandoned in 1953.

* P. 10, above.

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For about 2 years the idea of the natural ascendancy of the producer goods industries in the Rumanian pattern of investment remained in temporary disfavor. With the change in Soviet policy which followed the assumption of power by Khrushchev in the USSR, however, the producer goods industries in Rumania reasserted their position of priority. Total investment in 1955 was 11 percent greater than in 1954, and a larger portion of this total investment went to the producer goods industries. The actual pattern of investment, as shown in Table 1,* reverted to that originally planned. The "new course" was viewed as a temporary adjustment required to re-establish the necessary balance or proportion between the producer goods and the consumer goods industries in the allocation of investment.

3. Annual Investment.

Estimates of total investment, both planned and actual, during each year of the Five Year Plan are shown in Table 4.** Most significant is the change in the pattern of investment in the last 2 years of the Plan. In the first 3 years the planned investment was exceeded, whereas in the last 2 years the planned investment was considerably underfulfilled. The break in the pattern of investment, which occurred in 1953, reflects the decisions on investment made under the "new course" program previously discussed.*** Had investment not exceeded the goal during the first 3 years, investment during the entire Five Year Plan would not have reached the 94.7 percent of the goal actually achieved.

The First Five Year Plan provided for an average annual increase in total investment of 17.5 percent. Actual investment, however, increased by an average of only 16 percent annually. The development of total investment in Rumania during the First Five Year Plan is shown in the accompanying chart, Figure 1.**** In the first 3 years, actual investment rose at a much faster rate than planned, increasing by an average of more than 30 percent annually from the beginning of 1951 to the end of 1953. In 1954, however, actual investment fell 39.3 percent below the level of 1953. In 1955, actual investment was about 11 percent greater than in 1954, although still well below the level of 1953. (See Table 4.**)

* P. 10, above.

** Table 4 follows on p. 17.

*** See 2, above.

**** Following p. 16.

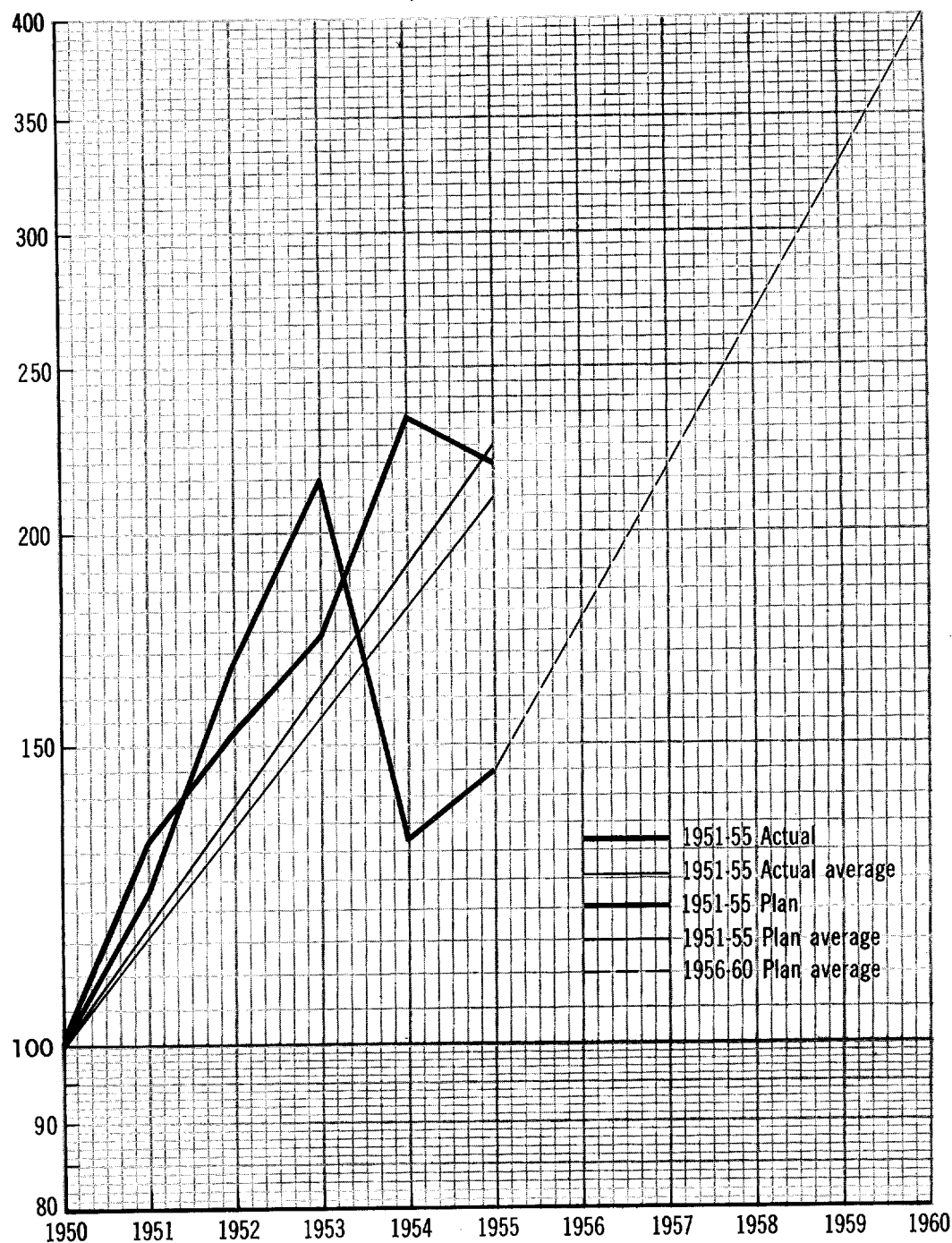
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Figure 1

GROWTH OF INVESTMENT IN RUMANIA UNDER THE FIRST AND SECOND FIVE-YEAR PLANS (1951-60)



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Table 4

Annual Investment in Rumania
Under the First Five Year Plan
(1951-55)

<u>Year</u>	<u>Investment</u> (Billion 1952 Lei)		<u>Actual Investment as Percent of Plan</u>
	<u>Planned</u>	<u>Actual</u>	
1951	9.6	9.9	103.1
1952	11.2	13.6	121.4
1953	12.7	17.3	136.2
1954	17.0	10.5	61.8
1955	16.0	11.7	73.1
Total	<u>66.5</u>	<u>63.0</u>	94.7

An analysis of industrial investment on an annual basis, similar to that presented for total investment in Table 4, is not available. Estimates of the average annual increase in planned and actual investment under the First Five Year Plan for all industry, for the producer goods industries, and for the consumer goods industries, however, are as follows:

	<u>Average Annual Increase</u> (Percent)	
	<u>Planned</u>	<u>Actual</u>
Producer goods	15.0	20.0
Consumer goods	40.0	30.0
Total industrial investment	<u>18.5</u>	<u>21.0</u>

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The high annual increase in investment in the consumer goods industries was possible because of the very low level of such investment in 1950. In that year, estimated investment in the consumer goods industries amounted to only 400 million lei, in contrast with an estimated investment in the producer goods industries of 3.6 billion lei.

B. Industrial Production.

As the result of a program of heavy investment, industrial production rose rapidly. Table 5* shows the volume of production of selected industrial items in 1938, 1950, and 1955, and Table 6** shows percentage comparisons of production of these items in the same years. Production of each item in 1955 increased significantly compared with that in 1938 and in 1950. As early as 1953 the government was claiming that total industrial production was 2.5 times the level of 1938. ^{16/} The indexes of total industrial production, of producer goods, and of consumer goods since 1950 are shown in the accompanying chart, Figure 2.***

The composition of Rumanian industrial production since 1950 illustrates the emphasis placed upon the producer goods industries. As shown in Table 7,**** production of producer goods accounted for the greater part of total industrial production in each of the years 1950-55. In 1954 the decline in the proportion of production devoted to producer goods was caused by a shift toward production of consumer goods under the "new course."

Spectacular results were achieved in industrial production during the first 2 years of the First Five Year Plan. These results led the government to adopt the slogan "The Five Year Plan in four years." ^{17/} The increase in total industrial production and in production of producer goods and consumer goods in each year of the First Five Year Plan is shown in Table 8.⁷ In 1953 and 1954 the increase in total industrial production resulted almost entirely from a sharp increase in the total industrial labor force.

* Table 5 follows on p. 19.

** Table 6 follows on p. 20.

*** Following p. 18.

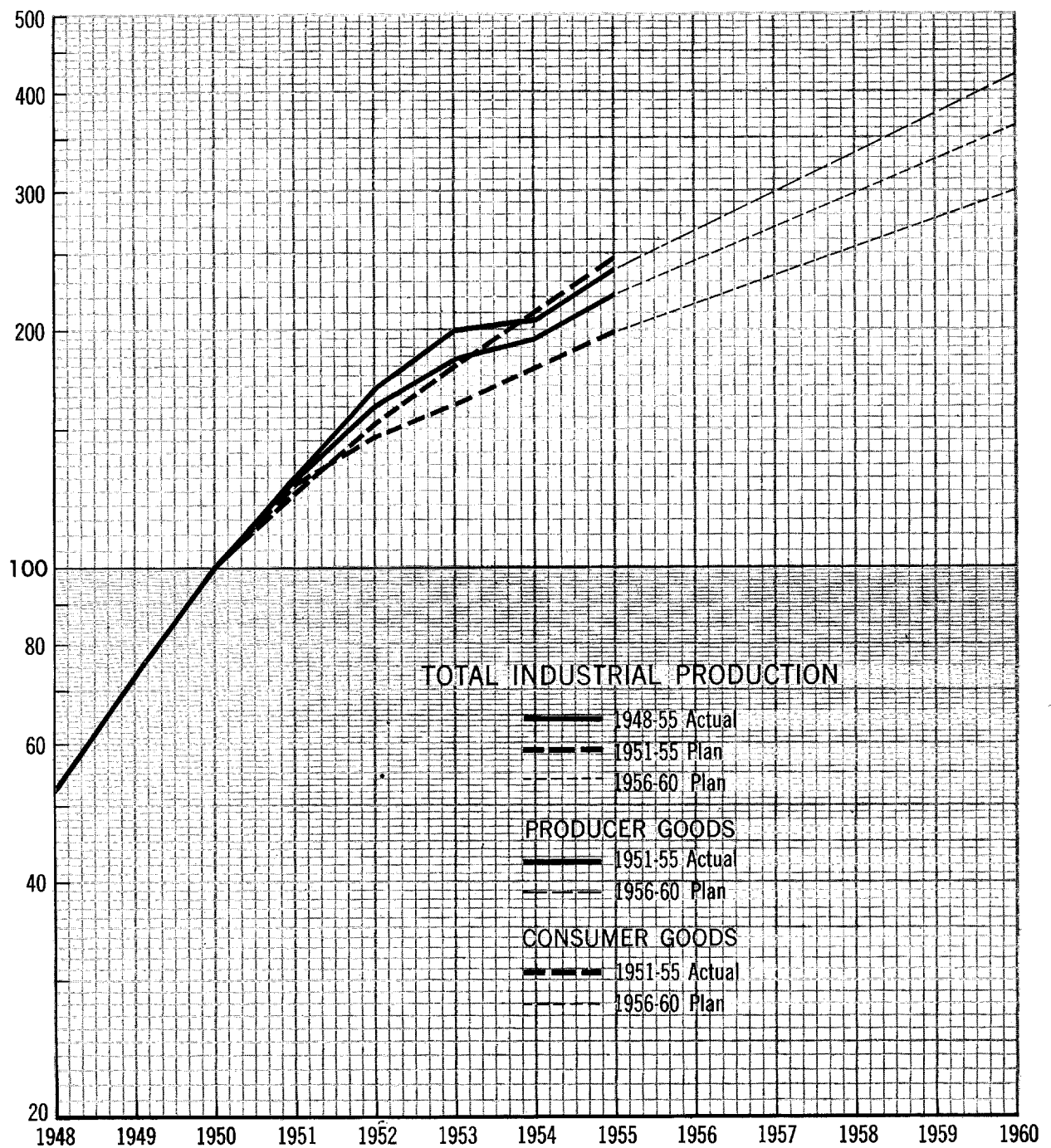
**** Table 7 follows on p. 21.

⁷ Table 8 follows on p. 21.

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Figure 2

INDEXES OF INDUSTRIAL PRODUCTION IN RUMANIA 1948-60



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Table 5

Volume of Production of Selected Industrial Items in Rumania
1938, 1950, 1955, and 1960 Plan

Item	Unit	1938	1950	1955 (Original Plan)	1955 (Actual)	1960 (Plan)
Electric power	Million kilowatt-hours	1,130	2,113	4,700	4,300	7,740 to 7,955
Raw coal	Thousand metric tons	2,826	3,890	8,500	6,200	11,160 to 11,780
Extracted crude oil	Thousand metric tons	6,594	5,047	10,000	10,575	13,536
Methane gas	Million cubic meters	300	1,950	3,900	3,900	10,140
Iron ore	Thousand metric tons	139	392	750	600	1,080 to 1,200
Manganese ore	Thousand metric tons	60	93	N.A.	390	546,000
Pig iron	Thousand metric tons	133	320	800	575	1,150
Steel	Thousand metric tons	284	555	1,252	765	1,530 to 1,683
Finished rolled metal	Thousand metric tons	318	459	828	567	1,050 to 1,080
Sulfuric acid	Metric tons	43,900	51,631	143,000	92,000	211,600
Sodium carbonate	Metric tons	35,000	54,158	109,000	80,000	N.A.
Cement	Thousand metric tons	510	1,028	2,855	2,000	N.A.
Footwear	Thousand pairs	N.A.	11,212	23,400	17,700	25,665
Edible oils	Metric tons	17,800	87,200	72,200	48,000	N.A.
Sugar	Metric tons	95,100	88,800	278,000	135,000	297,000

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Table 6

Percentage Comparisons of Production of Selected Industrial Items in Rumania
1938, 1950, 1955, and 1960 Plan

Item	Percentage of 1955 Plan Fulfilled	Percentage Increases		
		1955 over 1938	1955 over 1950	1960 Plan over 1955
Electric power	91.5	281	104	80 to 85
Raw coal	72.9	119	59	80 to 90
Extracted crude oil	105.8	60	110	28
Methane gas	100.0	1,200	100	160
Iron ore	80.0	332	53	80 to 100
Manganese ore	N.A.	550	319	40
Pig iron	71.9	332	80	100
Steel	61.1	169	38	100 to 120
Finished rolled metal	68.5	78	23	85 to 90
Sulfuric acid	64.3	110	78	130
Sodium carbonate	73.4	129	48	N.A.
Cement	70.0	292	95	N.A.
Footwear	75.6	N.A.	58	45
Edible oils	66.5	170	34	N.A.
Sugar	48.6	42	55	120

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Table 7

Distribution of Industrial Production in Rumania
1950-55

<u>Year</u>	<u>Percent</u>		
	<u>Producer Goods</u>	<u>Consumer Goods</u>	<u>Total</u>
1950	54.0	46.0	100.0
1951	54.4	45.6	100.0
1952	57.4	42.6	100.0
1953	59.1	40.9	100.0
1954	57.6	42.4	100.0
1955	60.0	40.0	100.0

Table 8

Percentage Increases in Industrial Production
in Rumania Under the First Five Year Plan
(1951-55)

<u>Type of Production</u>	<u>Percent over Previous Year</u>					
	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>Average</u>
Total industrial	28.7	23.0	14.4	6.6	14.0	17.3
Producer goods	29.6	29.8	17.8	3.9	16.0	19.2
Consumer goods	27.7	14.9	9.8	10.5	12.0	14.9

Because of the substantial initial increases in total industrial production, the Rumanian government refused to reckon realistically the cost of its program of heavy investment, especially in the ruinous inflation, which necessitated a currency reform in January 1952. Moreover, a serious drought in 1952, together with the reluctance of the peasants to exchange food for currency in which they had no confidence, brought on severe shortages of food, particularly in industrial centers, and output per worker declined by 6 percent in 1953 compared with 1952. Although output per worker increased in 1954 compared with 1953, it was still 4 percent below that in 1952. Not until 1955 did output per worker recover and surpass, by about 4 percent, the level of 1952.

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The decline in the productivity of labor resulted, in part, from bottlenecks in supply caused by the hoarding of scarce materials and the wastage of resources and, in part, from the hostility of workers toward the regime. This hostility centered on the excessive emphasis on production of producer goods and the de-emphasis on production of consumer goods and agricultural commodities. The workers were unwilling to pay the high price for savings demanded by the government, which necessitated further reductions in consumption. Despite exhortation the workers expressed their displeasure with this high price for savings by reducing their effort. The workers wanted concrete compensation in the form of additional food, clothing, and housing as a reward for further effort. Exhortation was not enough.

To offset the rapidly worsening economic position, the Rumanian government announced the "new course," which proposed the changes in the pattern of investment already discussed.* These changes increased production of consumer goods and agricultural commodities in 1954 and 1955.

The "new course" altered the rates of growth of production of producer goods and consumer goods in 1954. The increase in production of producer goods declined from nearly 30 percent annually in the period 1951-52 to 3.9 percent in 1954. ^{18/} By contrast, the rate of growth of production of consumer goods showed a small increase in 1954 compared with that of 1953.** In the final quarter of 1954 the rate of total industrial production was slightly higher than in 1953.

The year 1955 was one of recovery for the Rumanian industrial economy. Total industrial production rose 14 percent compared with 1954; production of producer goods, about 16 percent; and production of consumer goods, about 12 percent.

C. National Income.

No statistics on national income in lei have been released by the Rumanian government. References have been made, however, to percentage increases in national income compared with previous years. These references permit the construction of an index which shows the progress and growth of national income. In addition, an estimate of

* See A, 2, p. 15, above.

** See Table 8, p. 21, above.

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national income in terms of constant lei can be made on the basis of the reported relationship between investment and national income in 1953.* A breakdown of national income and of the contribution of industry to national income during 1950-55 is shown in Table 9, and a breakdown of Rumanian national income by economic sector in 1949, 1950, and 1955 is shown in Table 10.**

Table 9

National Income of Rumania
1950-55

Year	Billion 1952 Lei			Percentage Distribution		
	Industry	Other	Total	Industry	Other	Total
1950	16.4	22.9	39.3	41.7	58.3	100.0
1951	24.3	25.2	49.5	49.1	50.9	100.0
1952	27.9	25.8	53.7	52.0	48.0	100.0
1953	32.2	27.5	59.7	53.9	46.1	100.0
1954	33.8	28.9	62.7	54.0	46.0	100.0
1955	35.4	39.2	74.6	47.5	52.5	100.0
Total	<u>170.0</u>	<u>169.5</u>	<u>339.5</u> a/	50.1	49.9	100.0

a. The actual realization of national income under the First Five Year Plan (1951-55) amounted to 300.2 billion lei in contrast with the estimated planned realization of 361.2 billion lei.

National income, being in the Marxist sense of net material product only, excludes many services found in the Western concept of

* For methodology, see Appendix A.

** Table 10 follows on p. 25.

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national income.* According to the Rumanian concept, the income-producing and non-income-producing sectors of national income are as follows 19/:

Income-Producing Sector	Non-Income-Producing Sector
Producer and consumer goods	National defense
Construction	Social-cultural organizations and institutions
Agriculture and forestry	Scientific organizations and institutions
Transportation and communications**	Financial and credit institutions
Trade	Domestic help
Foreign and domestic	
Wholesale and retail	
Public eating places	
Supply of technical materials	
Collection, contracting, procurement	
Other	
Publishing	
Cinema industry	
Home industry	

* National income in the Marxist accounting sense is valued at market prices and consists almost entirely of income created by the actual production of material goods. Only services required for production and distribution of material goods -- for example, transportation of iron ore from the mines to the furnace -- are included in national income. All other services, governmental or personal, are not considered as creating income. Gross national product in Marxist terminology is the sum of material production at market prices and may be considered as the sum of (1) costs of production, including raw materials, fuels, and depreciation; (2) the wage bill and contributions for social security; and (3) "surplus value" -- that is, turnover tax plus profits. Net national product in Marxist national accounts is the difference between gross national product and the costs of production, or the sum of the wage bill, contributions for social security, and "surplus value."

** As stated in the footnote above, total transportation services are not included in Marxian concepts of national income: for example, passenger transportation services are excluded.

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Table 10

National Income of Rumania, by Economic Sector
1949, 1950, and 1955

Economic Sector	Billion 1952 Lei			Percentage Distribution			Percentage Increase 1955 over 1950
	1949	1950 ^{a/}	1955	1949	1950 ^{a/}	1955	
Industry	15.6	16.4	35.4	41.7	41.7	47.5	115.8
Agriculture	10.7	11.2	19.5	28.6	28.6	26.1	74.1
Construction	1.5	1.6	4.7	4.1	4.1	6.3	193.8
Transportation and telecommunications	1.4	1.5	3.1	3.9	3.9	4.2	106.7
Trade, supplies, distribution	5.2	5.5	8.6	13.9	13.9	11.5	56.4
Other	2.9	3.1	3.3	7.8	7.8	4.4	6.5
Total	<u>37.3</u>	<u>39.3</u>	<u>74.6</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	89.8

a. The percentage distribution of the national income among the various sectors of the economy in 1950 was assumed to have been the same as in 1949.

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Under the First Five Year Plan, national income in 1955 was planned at about 102 billion lei, or slightly more than 2.6 times the level of national income in 1950. The average annual rate of increase in national income was planned to be 21 percent. Actual national income in 1955 was only 1.9 times that in 1950, an average annual increase of 13.7 percent. Thus the Plan for national income was completed by only 73.1 percent by 1955.

The accompanying chart, Figure 3,* compares the growth in actual national income with planned national income. Only in 1951 did the actual rate of increase in national income exceed the planned rate of increase. In subsequent years the actual rate of increase fell considerably below the planned rate of increase.

The planned increase in national income was to be about 62 billion lei under the First Five Year Plan. Actual national income rose about 35.5 billion lei during this period. If an arbitrary lag of 1 year were introduced into total investment by the exclusion of investment in 1955 but the inclusion of that in 1950, lagged total investment planned would be 57.8 billion lei, and lagged total investment actually achieved would be 59.3 billion lei. The average ratio of the planned increment of output to the planned increment of investment becomes 1.07 to 1.00, and the average ratio of the actual increment of output to the actual increment of investment becomes 0.60 to 1.00. Actual additional national income per leu of investment would be 44 percent lower than expected.**

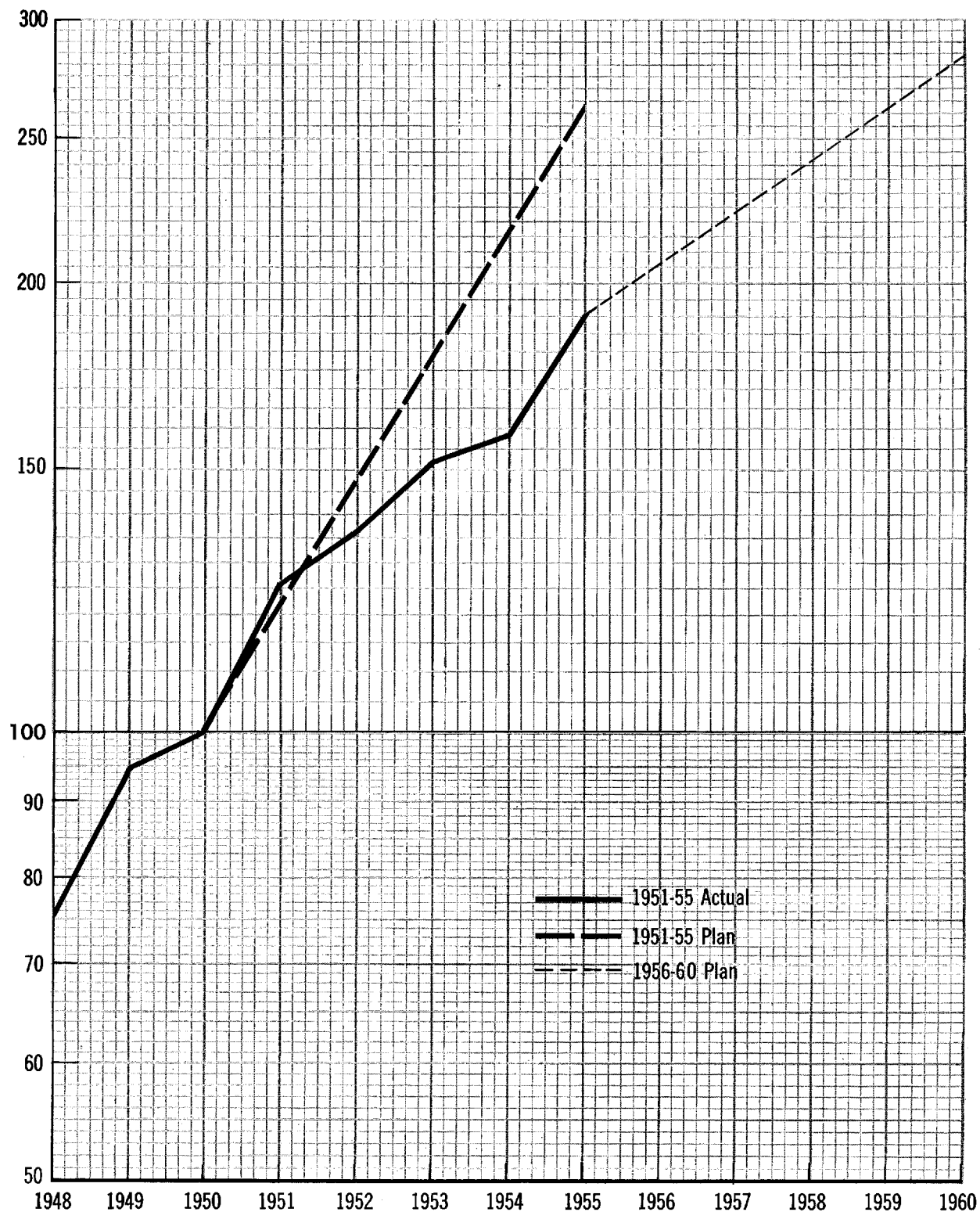
* Following p. 26.

** Investment is defined as the increment, or gain, in total capital stock for the period 1950-54, and incremental national income is defined as the gain in national income for the period 1951-55. It is recognized that 57.8 billion and 59.3 billion lei represent gross planned and actual investment, respectively, and not net investment. The net increments would be obtained by subtracting retirement and depreciation from the two gross investments. Because actual gross investment very closely approximated planned gross investment and because the amount subtracted from each total (the sum over 5 years of retirements plus depreciation) probably would be approximately the same, gross investment may be used to obtain ratios of output to investment for comparative purposes. It is also recognized that the planned ratio of output to investment would have an upward bias compared with the actual ratio of output to investment when gross investment is used instead of net investment.

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Figure 3

INDEXES OF NATIONAL INCOME IN RUMANIA 1948-60



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By 1955 the productivity of labor had increased by 38 percent compared with 1949. This increase in the productivity of labor, which took place despite declines in 1953 and in 1954 compared with 1952, contributed greatly to the increase in national income. Another important reason for the increase in national income was the increase in the number of workers employed by industry from 1 million in 1945 to about 2 million by 1955. 20/ The development of an economy based on monetary exchange in place of one based on barter inflates the figure for national income, particularly in the rural areas.

The relationship of investment to national income, expressed in percent, for the years 1951-55 is as follows:

<u>Year</u>	<u>Percent</u>
1951	20.0
1952	25.4
1953	29.0
1954	16.7
1955	15.7

D. Achievements and Failures.

1. Achievements.

Under the First Five Year Plan the total industrial capacity of Rumania expanded greatly compared with the level achieved before World War II. In the petroleum industry, 18 new oilfields were discovered, and more than 70 percent of the oil produced during the Plan was derived from these newly discovered pools. 21/ Large electric power plants such as the Gheorghiu-Dej Thermal Power Plant at Sfantu-Gheorghe were installed. Two new blast furnaces were constructed, each with an estimated volume of 450 cubic meters. 22/ In addition, a new furnace with a volume of 700 cubic meters was nearing completion by the end of the First Five Year Plan. 23/

A machine building industry, which, for all practical purposes, never existed before in Rumania, was created. In 1956 this industry was building primarily equipment for oilfields, transportation, and agriculture. Rumania now manufactures such equipment for oilfields as drilling equipment, depth pumps, washing and cementing plants, and turbine drills. The agricultural equipment industry is producing such items as self-propelled combines, threshing machines, harvester-binders, self-propelled mowing machines, and diesel

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caterpillar tractors. The chemical industry is producing commodities such as dyes, new types of medicines, tanning materials, and plastics, which have never before been made in Rumania.

As for consumer goods industries, 3 new textile plants with a total capacity of 58,000 spindles were erected under the First Five Year Plan. 24/ By 1953, capacity for spinning had increased by 40 percent and capacity for production of cloth, by 60 percent, compared with 1948. 25/ The construction of a new clothing factory made possible an increase of 30 percent in production of readymade clothing. 26/ Production of footwear increased with the erection of a new tannin extract factory. In the food industry, two new sugar refineries, new oil-processing factories, slaughterhouses, and canning factories were constructed.

Under the First Five Year Plan, considerable success also has been achieved in the mechanization of industry. Between 1948 and 1954 the value in constant prices of technical equipment increased 7.3 times the original prices in the metallurgical and machine building industries, 4 times in the coal industry, 5 times in the oil industry, and 12.6 times in the electrical engineering and electric power industry. 27/

Mechanization of the coal industry especially has been pushed. By 1954 the degree of mechanization of various coal mining operations was as follows: cutting seams at the faces, 85.6 percent; breaking down coal at the faces, 83.2 percent; transportation of coal at the faces, 70 percent; and underground transportation, 90.8 percent. 28/ As for iron ore mining, about 89 percent of all underground transportation was mechanized by 1954. 29/

Mechanization also has been pushed in the charging of blast furnaces and in the smelting of steel. The machine building industry is increasing its use of automatic welding, of casehardening of metals with high-frequency current, of casting metals under pressure, and of forging metals in dies. Although many of the techniques employed in industrial production may not be modern by Western standards, Rumania previously never had used any of these processes.

2. Failures.

Despite the success of such an ambitious program of investment in the form of greatly expanded industrial capacity and more

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modern techniques of production, the weaknesses of the program prevented the attainment of most of the goals of the First Five Year Plan.*

a. Bottlenecks in Supply.

The excessive demands for investment levied on the economy created shortages of raw materials. As these shortages became more serious, many industrial managers, aware of the political necessity of attaining their goals for production, built stocks of raw materials in excess of immediate requirements. As a result, working capital, which was tied up in inventories, became unavailable, and necessary raw materials were withheld from other enterprises. Especially hampered by bottlenecks were those industries which manufactured products requiring iron and steel fabricated parts. The failure of the steel industry to attain its goals for production adversely affected production in the machine building, the construction materials, the coal mining, and the electric power industries.

Other shortages of supplies resulted from a wastage of scarce raw materials. Plant managers were unwilling to use cheaper but less productive substitutes for scarce materials. The many bureaucratic controls necessary to coordinate a centrally planned economy slowed deliveries of vital raw materials and fabricated parts. Resources were stored improperly and suffered heavy losses from inclement weather or pilfering.

b. Productivity of Labor.

Under the First Five Year Plan the productivity of industrial labor was scheduled to increase by 75 percent compared with 1950. The actual increase was only 47.7 percent, and thus the plan for the productivity of labor fell short of fulfillment by 36.4 percent. ^{30/} Absenteeism was an important factor. In 1954, 9 million man-days were lost in industry, 5.7 million through absenteeism and 3.3 million through leave approved by management. ^{31/} In 1955, absenteeism caused the loss of more than 3.7 million man-days. ^{32/} The productivity of labor in the coal, the metallurgical, the textile, and the food industries consistently remained far below planned levels. In 1955 the productivity of labor in the coal industry was only 92 percent of that in 1950. ^{33/}

* See Table 5, p. 19, above.

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This decline in the productivity of labor resulted in part from a high turnover of labor caused by the departure of experienced miners for better paying jobs or for other inducements, such as better housing. In 1948, miners with more than 5 years of experience had accounted for more than 44 percent of the mining force in the coal mines of the Jiu Valley. By 1955, as shown in Table 11, miners with less than 1 year of experience had become the largest single group.

Table 11

Length of Service of Coal Miners in the Jiu Valley of Rumania
1948, 1950, and 1955

<u>Length of Service</u>	<u>Percent of Mining Force</u>		
	<u>1948</u>	<u>1950</u>	<u>1955</u>
Up to 1 year	27.4	43.5	44.1
1 to 3 years	17.2	23.3	28.9
3 to 5 years	11.3	9.1	7.5
More than 5 years	44.1	24.1	19.5
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

A Soviet economist has called attention to the great disparity between the increase in capital stock per worker and the increase in the productivity of labor in the machine building industry of Rumania. ^{34/} By Soviet standards, interruptions in the use of machinery in Rumania apparently have been excessive. Although the value of equipment per worker increased 5.4 times the original value between 1949 and 1954, the productivity of labor increased only 108 percent. Among the reasons for the low productivity of labor was a large number of unplanned or unscheduled interruptions in the use of machinery, amounting to 9 million machine-hours lost in 1955. Unscheduled interruptions in the use of machinery were also common in other industries. In 1955 the coal industry used only 76 percent of the available mechanical coal cutters, and the lumber industry used only 85 percent of the available tractors. ^{35/}

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c. High Costs of Production.

The failure to attain planned reductions in cost produced bitter criticism on the part of Gheorghiu-Dej at the Second Party Congress of the PMR. Industry failed to attain the over-all reduction of 23 percent in costs compared with 1950, as called for in the First Five Year Plan. 36/ The principal offenders were the following industries: coal, wood, cellulose and paper, sugar, meat, cotton, and iron and steel. Gheorghiu-Dej claimed that an over-all reduction of 1 percent in costs in 1955 would have produced total savings to industry of almost 320 million lei. 37/

d. Faulty Planning.

The lack of technical knowledge and experience in planning industrial investments was another important reason for failures in production. In some projects, large sums were allocated for construction before the industry in question had completed plans for expansion. After plans had been drawn up, the funds allocated were either insufficient or excessive. If the funds were insufficient, additional funds had to be appropriated; if excessive, many enterprises tried to develop additional projects for investment, and these projects often had little economic significance.

The planners of some projects willfully underestimated costs of production, knowing that once a project had been begun, it had to be completed or the investment would become a complete loss to the economy. The padding of expenses and costs also was widespread. As a result of willful underestimates of costs of production, the quantities of resources allocated to projects were frequently too small. Padding produced the opposite effect on the allocation of resources, with the result that resources were kept idle or were not fully used. The Rumanian planning commission was sharply criticized for not ranking investments in order of priority according to their industrial importance. 38/ Insufficient attention was given to the most effective use of resources, and millions of lei were misallocated or misused in investments on inappropriate projects.

Because plans for projects frequently were either incomplete or incorrectly prepared, these plans later required important and costly changes which delayed completion of the projects. Other projects were overloaded with insignificant details not necessary to the purpose of the original investment.

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The general plan of investment for each year was drawn up many times before the detailed plans for investment in individual projects could be prepared and submitted. Thus the start of projects was delayed, costs were raised, and many projects could not be completed during the First Five Year Plan.

e. Lack of Adequate Controls.

Another important shortcoming of the First Five Year Plan in Rumania was the lack of an adequate apparatus for control. Planning staffs were undermanned and inexperienced, and there was little inspection of work in progress. Statistical data on investment were both inadequate and inaccurate. Effective financial controls were practically nonexistent.

In a planned economy, effective financial controls are absolutely necessary. Unless such controls are effective, it is impossible to control the purposes for which expenditures are made or to determine the extent to which reported costs are lower or higher than planned costs. Plan profits become meaningless. Only if prices reflect costs can incentives be provided for the reduction of costs. Moreover, when a relatively scarce commodity has a low cost of production, the price of this commodity can be adjusted to discourage its use.

Violations of existing financial controls in Rumania took different forms. By using working capital and amortization funds, some enterprises began construction without obtaining the allocation of funds for capital expenditure. Thus operating funds were denied to current production, and a slackening of production resulted. In other instances a lack of operating funds caused delays in construction and made necessary changes in the construction of projects, thereby delaying completion.

f. Technical Miscalculations.

Rumanian planners underestimated the time required for many capital investments to mature and become productive. Actual ratios of output to investment were less than had been planned, and additional investments were required in the producer goods industries if the goals for production under the First Five Year Plan were even to be approached. The coal industry failed to achieve its original plan for production by 27 percent, although total capital investment

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was increased about 108 percent above the planned goal. The petroleum industry achieved its original goals only after an additional capital investment of 61 percent above the Plan.

Errors were made in matching production of the machine building and the electrical engineering industries to production of the basic materials required, iron and steel. The significance of these errors was demonstrated by the idle capacity of the machine building and electrical engineering industries because of a lack of iron and steel.

g. Neglect of Consumer Goods Industries.

Although the lack of funds for investment was a major reason for the poor showing of the consumer goods industries in Rumania in 1951-53, raw materials for these industries were scarce from the beginning of the First Five Year Plan. To achieve the levels of production originally planned would have required stocks in excess of those held by the industries in 1951. In August 1953, planned levels of production were revised sharply downward.

The avowed purpose of the "new course" was to correct the imbalance in production between producer goods and consumer goods by increasing investment in the consumer goods industries. In addition, better treatment was to be accorded the peasants who still held private land, and the pace of collectivization was to be slowed. The purchasing power of money was to rise because more goods were available for purchase.

On 27 December 1954, rationing was abolished in accordance with a promise made in 1953, and by 1955 the imbalance in production between producer goods and consumer goods appears to have been corrected enough to justify a small reduction in the prices of canned food, clothing, household appliances, and kerosine. 39/ The goal of 9,040,000 tons of grain set for 1955 had already been exceeded by 1954. 40/ By 1955 the quantities of consumer goods made available to the peasants had increased, and the harvests of wheat, corn, potatoes, and beets were better than expected. Likewise, by 1955, production of footwear had surpassed the revised goal set in 1953 by 21 percent. Cotton fabrics had achieved 98 percent and woolen fabrics 95 percent of the revised goals for their production. 41/

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V. Second Five Year Plan (1956-60).

The record of investment under the First Five Year Plan clearly reflects the inability of the planners to judge the limitations of Rumanian resources for investment. Many errors appear to have been corrected, however, by experience. As shown in Table 12,* estimates of ratios of increased output to increased investment in selected industries under the Second Five Year Plan correspond quite closely to those ratios actually achieved under the First Five Year Plan. The planned ratios of increased output to increased investment under the Plan bear very little similarity to the actual ratios. By contrast, the planned ratios for the different industries in 1956-60 do not differ significantly, except for petroleum, from the actual ratios in 1951-55. For example, a planned investment in methane gas 3 times the actual investment in 1951-55 would appear to yield by 1960 2.6 times the amount of gas produced in 1955. Similar general conclusions may be drawn for the planned investments under the Second Five Year Plan in the electric power, the coal, the sugar, and the footwear industries.

One reason which may explain in part the unrealistic ratios of output to investment planned for the petroleum and the coal industries in the First Five Year Plan is that in many countries these industries have been, historically, increasing-cost industries. If it is assumed that there is no change in technology under conditions of increasing cost, as the scale or size of an industry expands, the average cost of additional output resulting from increased industrial capacity within the industry rises at a faster rate than the increase in output. Such a situation may exist in the Rumanian coal and petroleum industries because the coal deposits are expensive to mine and the oil wells are now among the deepest in Europe.

Under the Second Five Year Plan, Rumania plans to invest between 105 billion and 110 billion lei, approximately 67 to 75 percent more than actual investment under the First Five Year Plan. Industrial investment is to increase to between 58.8 billion and 61.6 billion lei, an amount which is about 61 to 69 percent greater than actual industrial investment in 1951-55. The distribution of total and industrial investment planned for 1956-60 was shown in Tables 1** and 2,***

* Table 12 follows on p. 35.

** P. 10, above.

*** P. 12, above.

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Table 12

Ratios of Increased Output to Increased Investment
in Selected Industries in Rumania
Under the First and Second Five Year Plans
(1951-60)

Industry	<u>Increases in Investment</u>			Unit	<u>Increases in Output</u>			Unit	<u>Ratio of Increased Output to Increased Investment</u>		
	<u>(Million 1952 Lei)</u>										
	<u>1951-55</u>		<u>1956-60</u>		<u>1951-55</u>		<u>1956-60</u>		<u>1951-55</u>		<u>1956-60</u>
	<u>Planned</u>	<u>Actual</u>	<u>Planned</u>		<u>Planned</u>	<u>Actual</u>	<u>Planned</u>		<u>Planned</u>	<u>Actual</u>	<u>Planned</u>
Producer goods											
Petroleum	5,800	9,350	12,400 a/	Thousand MT b/	4,953	5,528	2,961	MT to million lei	854	591	238
Methane gas	600	950	3,000 a/	Million cu m c/	1,950	1,950	6,240	Cu m to million lei	3,250,000	2,050,000	2,080,000
Electric power	7,300	4,800	6,700 a/	Million kwh d/	2,587	2,187	3,553 e/	Kwh to million lei	354,000	455,000	530,000
Coal	1,300	2,700	4,800 a/	Thousand MT	4,610	2,310	5,270 e/	MT to million lei	3,540	855	1,100
Consumer goods											
Sugar	360	430 f/	610 a/ f/	Thousand MT	190,800	47,800	162,000	MT to million lei	530	110	270
Footwear	495	130 f/	210 f/	Thousand pairs	12,188	6,488	7,965	Pairs to million lei	25	50	39

- a. Average planned investment.
b. Metric tons.
c. Cubic meters.
d. Kilowatt hours.
e. Average planned production.
f. Estimated.

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respectively. By 1960, total industrial production is to surpass that of 1955 by 60 to 65 percent. ^{42/} Production of producer goods in 1960 is to increase by 70 to 75 percent compared with 1955 and production of consumer goods, by 50 to 55 percent. As shown in the chart, Figure 2,* total industrial production in 1960 is planned to be 3.6 times that in 1950. Production of the producer goods and the consumer goods industries is to be 4.2 times and 3 times, respectively, that in 1950. By 1960 the productivity of labor is to increase by at least 40 to 45 percent over that in 1955, projected real wages of workers and employers are to be 30 percent greater than in 1955, and reductions in costs of production throughout the entire economy are to save 40 billion lei. ^{43/}

The total volume of capital works** is to be 23 percent of the national income: that is, accumulated national income for the 5-year period is estimated at between 457 billion and 479 billion lei. ^{44/} These figures indicate an average annual increase in national income of between 7 and 8.5 percent. By 1960, national income is to be 50 percent greater than in 1955. ^{45/} The annual increase in planned investment is expected to average between 20 and 22 percent. These figures are in contrast with those of the First Five Year Plan, which projected annual increases of 21 percent in national income and 17.5 percent in investment.

During the period 1956-60 the ratio of the average annual increase in national income to the average annual increase in investment is to be about 1 to 3, according to figures of the Second Five Year Plan. The government is planning to invest each year about three times the annual increase in national income. The lagged incremental ratio of increased output to increased investment is 0.42 to 1.00. National income thus will rise about 0.42 leu annually for every leu invested. This goal is very conservative compared with that of the First Five Year Plan. Estimated national income and investment under the Second Five Year Plan are shown in Table 13.***

Seventy percent of the total industrial investment is allocated to the modernization and completion of capital projects which were partly completed during the First Five Year Plan. The remaining

* Following p. 18, above.

** The total volume of capital works is assumed to be the same as the total capital investment.

*** Table 13 follows on p. 37.

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Table 13

Estimated National Income and Investment in Rumania
Under the Second Five Year Plan
(1956-60)

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>Total</u>
National income (billion 1952 lei)	81	88	95	103	112 a/	479
Investment (billion 1952 lei)	14	17	21	26	32	110
Investment as per- cent of national income	17.3	19.3	22.1	25.2	28.6	23.0

a. The goal for national income in 1960 is an increase of 50 percent over that of 1955, which was 74.6 billion lei. An average annual increase of 8.5 percent is required to meet the goal of an increase of 50 percent by the end of the 5-year period.

30 percent, or about 18 billion lei, is allocated to new projects. The new construction planned, however, is significant. Three new blast furnaces with a total volume of 1,850 cubic meters, a 700,000-ton steel plant, 2 coke oven batteries with an annual capacity of 400,000 tons, and pipe and sheet-rolling mills are to be built for the iron and steel industry. ^{46/} Synthetic rubber and fiber factories, pharmaceutical plants, cellulose mills, and phosphate fertilizer and soda factories are planned for the chemical industry. Special attention is to be given to the development of a new chemical industry, the petrochemical industry, which makes oil-derivative chemicals from petroleum and petroleum gases. ^{47/} Goals for the exploration drilling for oil have been increased 55 to 60 percent over goals of the First Five Year Plan. ^{48/} Cracking plants are to be erected, and crude oil pipelines are to be constructed for the petroleum industry. New coal and iron mines are to be opened, and a new briquetting plant is to be installed. The hydroelectric power plant at Bicaz is to be completed and put into operation, and new power plants are planned on the Arges River and in the Apuseni Mountains. ^{49/}

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The priority given to investment in the producer goods industries in 1951-55 continues in 1956-60. There is, however, one important difference between the First and Second Five Year Plans. Under the latter Plan, there is a greater awareness of the cost to the economy of neglecting the consumer goods industries and agriculture. Compared with actual investment under the First Five Year Plan, substantial increases in funds have been allocated to these sectors.* Increased capacity is planned for many consumer goods industries. The number of spindles in the spinning mills is to be increased by 110,000, and capacity for finishing cotton fabrics is to increase by about 100 million meters. A cellulose-fiber plant, two flax and hemp spinning mills, a new knitting mill, a hosiery factory, a rubber footwear factory, a sugar mill, a bread factory, and a brewery are to be built. 50/

VI. Conclusions.

A. Growth of Investment.

The goal of the Rumanian economy, as expressed in the First Five Year Plan, was to maximize production by arbitrarily committing resources to investment, particularly to investment in the producer goods industries, thereby increasing the growth of capital stocks. Although the accomplishments were significant, the cost to the economy in terms of consumption foregone and the misallocation of resources within the industrial sector prevented the full realization of the Rumanian program for economic development.

The most serious impediments to a rapid increase in investment in Rumania were as follows: (1) the use, for purposes of planning, of prices which did not reflect actual costs of production; (2) the attempt to assign more than 30 percent of the national income to the accumulation fund; (3) the treatment of Rumania as a closed economy, with the exception of petroleum; (4) the serious overestimation of the availability of resources; and (5) the low level of productivity of labor.

1. Because planned prices bore very little resemblance to actual costs, the application of financial controls became ineffective in Rumania. As a result, there was no monetary check by which the planning commission could evaluate the success or the failure of its allocation of resources.

* See Table 1, p. 10, and Table 2, p. 12, above.

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Effective financial controls in any economy, centrally planned or otherwise, require relatively stable prices and the confidence of the public in the value of money. The policy of extensive investment of the First Five Year Plan and the concentration of industrial investment in the producer goods industries rather than in the consumer goods industries created such heavy inflationary pressures in the Rumanian economy that a monetary reform in January 1952 and a reduction in expenditures for investment in 1954 and 1955 compared with previous years were necessary to give meaning to the value of money and to produce relatively stable prices. The lack of effective financial controls required that all decisions on allocations for investment be made by the central planning commission. If effective financial controls exist, however, many minor decisions on investment can be left to the managers of individual plants. Because each industry and each plant is assigned a goal for profits, second in importance only to its goal for production, minor decisions on allocations for investment must be made by plant managers with the objective of achieving their planned profits. Effective financial controls would have obviated the necessity for the central planning commission in Rumania to be concerned with every minor allocation for investment and would have permitted the decisions on these allocations to be made by the managers of individual plants, who were probably better qualified than the central planning commission to choose among alternatives for investments.

2. In attempting to complete the program for investment established by the First Five Year Plan in 4 years, the Rumanian economy created a serious imbalance between the investments allocated to the producer goods industries and those allocated to the consumer goods industries. Originally the accumulation fund, which is used for the expansion of production and for the formation of reserves, was set arbitrarily at 25 percent of the national income. The remainder of the national income, the consumption fund, was to satisfy the needs of the public and the armed services. In an attempt to speed up capital formation, the Rumanian government raised the accumulation fund to more than 30 percent of the national income in 1953. 51/ This move squeezed savings out of the economy and further reduced consumption. As the social cost of obtaining capital formation by further reduction of consumption became intolerable, workers refused to respond to exhortation and declined to make the effort required to maintain planned production. Productivity fell, and costs of production rose.

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A Marxian economist probably would attribute the Rumanian economic crisis of 1953 and 1954 to the violation of the law of planned proportionate development. Granted the primacy of producer goods, the consumer goods industries and agriculture had not received funds sufficient to allow their production to create minimal standards of living for which the public would exchange its labor. Clearly there had been a misallocation of investments. Because there are no criteria in an economy of the Soviet type which would permit anticipation of such a crisis, however, only pragmatic observations are available to show the planners when they have misallocated factors by overextending investment. The division of national income between the accumulation and consumption funds on a 25-to-75-percent basis certainly is not more than a general guide to the problem of the allocation of investment. By trying to expand the accumulation fund beyond the 25-percent mark, Rumania suffered an economic crisis. The Second Five Year Plan is based on the experience of the First, and there appears more willingness to accept fewer savings from the economy and to recognize the existence of limitations upon the expansion of the accumulation fund. As shown in Table 12,* investment is to account for 23 percent of the national income under the Second Five Year Plan.

3. During the First Five Year Plan, too little attention was given to the natural limitations of Rumanian economic resources and to the problem of expanding foreign trade. The pattern of economic development treated Rumania as essentially a closed economy. Except for petroleum, no serious attempt was made to concentrate production on those commodities in which Rumania had a comparative advantage over the other European Satellites. The coal industry, which is clearly lacking in resources to produce metallurgical grades of coke, received greater expenditures of capital than did the petroleum industry, which had a clear competitive advantage. In the Second Five Year Plan there is a keener awareness of such mistakes. In line with the directives of the Council of Mutual Economic Assistance (Soviet Ekonomicheskoy Vzaimopomoshchi -- CEMA), Rumania is to foster the development of the power and the chemical industries. For the development of the power industry, Rumania possesses considerable unused sites for hydroelectric power, abundant low-quality grades of coal and lignite, and, it is claimed, workable deposits of uranium. For the development of the chemical industry, coal, sulfur, petroleum, methane gas, and salt form a natural resource base.

* P. 35, above.

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4. The Rumanian government refused to recognize limitations arising from shortages of certain raw materials. This refusal stemmed in part from a policy of treating the country as a closed economy and in part from Communist insistence upon the priority of investment in the producer goods industries. Throughout the First Five Year Plan the Rumanian government assumed that commensurate increases in production in the extractive industries would automatically follow the additional application of capital and labor.

In certain industries, such as petroleum and methane gas, this assumption has been justified. In other extractive industries, such as coking coal and iron ore, however, commensurate increases in production have not been achieved, despite the expansion of capital investment or the additional inputs of labor. During the First Five Year Plan, production of domestic coke and iron ore met only 50 percent of the needs of the steel industry. ^{52/} Since 1947, no significant new coalfields have been found, and there is no evidence that new, workable deposits of iron ore have been discovered. The failure of these industries to fulfill their goals and the effect of such failures on production of other industries, such as the iron and steel and the machine tool industries, cannot be solely attributed -- as the Rumanians do -- to poor organization, the low productivity of labor, and other operational reasons. A primary reason for these failures has been the acute shortage of economically workable deposits of coal and iron ore.

The insistence upon further development of these increasing-cost industries continues under the Second Five Year Plan. The government has recognized the weaknesses of a closed economy, however, and exports of petroleum and chemical products may be increased to obtain additional imports of coking coal and iron ore.

5. The availability of resources for investment in any economy depends upon the level of savings forthcoming. As previously noted,* a government of the Soviet type is dedicated to the growth and expansion of capital formation, or investment, and continually strives to expand the resources allocated to the accumulation fund. Because the funds to finance investment come from the state, the government does not lack monetary resources to carry out its program of economic development. The availability and supply of real resources for investment, as distinct from monetary resources, however, depend not on the willingness of the government to allocate resources to investment but on the level of national income and the minimization

* See II, p. 4, above.

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of the demands for consumption which are made upon that income. In Rumania, as in other economies of the Soviet type, the planned rate of economic growth was retarded not by the lack of demand for investment but, among other factors, by the unwillingness of workers to make the effort required for such growth.

Under the First Five Year Plan the supply of resources which became available for investment in Rumania each year was considerably less than had been anticipated by the central planning commission, primarily because of the low productivity of labor. The poor showing made by labor has been attributed to the lack of interest in the introduction of new techniques of production, to higher norms for labor, to poor management, and to the unsatisfactory use of equipment. A primary cause, however, was the refusal of labor to expend its effort in exchange for a low standard of living. The workers preferred leisure to earning money which had little utility. There were few goods to be purchased, and those that were available were rationed. Food was scarce and poorly distributed, and adequate housing was not available.

The importance of material incentives to increase the productivity of labor was recognized by Gheorghiu-Dej in his address before the Second Party Congress of the PMR. He severely criticized the PMR for the insufficiency of consumer goods and agricultural production, and he pointed out, surprisingly, that the purpose of production was to satisfy the needs of the economy and of the working people to an ever higher degree and that production was not an end in itself. 53/

B. Alternatives for Investment.

Because the goal of maximizing production through concentrating investment in the producer goods industries is basic to an economy of the Soviet type, the choice among alternatives as to what to produce is, for the most part, already determined. The emphasis on investment in the producer goods industries is basic because a prerequisite to the building of an industrial economy is the prior development of such industries as iron and steel, electric power, chemicals, and non-ferrous metallurgy. To a large degree the question of what to produce becomes noneconomic.

In a country such as Rumania, a policy of economic development of the Soviet type is, in part, self-defeating because too little

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consideration is given to natural resources. In a country with as many varied resources as the USSR, the concept of a closed economy is largely applicable. In Rumania, which lacks the necessary raw materials, such as deposits of coking coal and iron ore, such large investments in the metallurgical industries do not seem justified. A more economic program of investment would have been the coordination of Rumanian policies of investment with those of the other European Satellites. Development could have been much more rational if the entire Soviet Bloc had been treated as an integrated economic sector.

Soviet priorities for economic development give primary consideration to the power and the transportation industries. Without the prior development of these industries, it is difficult for a country to advance rapidly toward industrialization. Under Soviet policy, this consideration carries greater weight than considerations of cost and of the availability of raw materials. Treated in this economic context, the Rumanian desire to expand the iron and steel and other increasing-cost industries is more defensible because the development of these industries is essential to the development of heavy industry. The heavy cost of disregarding a shortage of natural resources, however, often outweighs the advantages of building up heavy industry.

Accommodation to innovation is very expensive because such accommodation bears a very high social cost. For example, the Rumanian railroad system in 1950 was based on coal-burning locomotives. If, because of the comparative advantage of investment in petroleum rather than coal, these locomotives had been discarded then in favor of diesel locomotives, the level of saving required would have been still greater. Consumption would have had to be restricted still further, and standards of living would have declined even more. Because it was cheaper to expand production of coal and to use the locomotives on hand than to discard them in favor of diesel locomotives, the comparative advantage of dieselization was outweighed in the short run by its social cost.

The general criticisms of planned projects in Rumania indicate that the planners gave little if any consideration to the conservation of scarce industrial resources. Scarce resources were constantly wasted on projects for which cheaper substitutes were readily available. For example, in the construction of the cultural buildings of the refrigeration plants at Arad and Targu-Mures, the buildings were fenced in concrete, which was scarce, despite the

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ready availability of brick and other cheaper building materials. ^{54/} A price system reflecting actual costs of production and an adherence to Plan profits could reduce this waste of resources in economies of the Soviet type. Planners of projects will always be handicapped, however, because, in choosing among alternatives for investment in production of a particular item, or in the building of a particular project, indicators of cost are not enough to compare the relative importance or economic rank of one alternative for investment with another.

C. Comparison with a Free-Price Economy.

In a free-price economy the ultimate purpose of production is the satisfaction of the consumer. The consumer strives to allocate the expenditure of his income so as to derive the greatest satisfaction. Prices measure scarcity as well as cost, and through prices the sovereignty of the consumer dictates not only the level of savings or accumulation but also what is to be produced and how factors are to be allocated to the production of any good or service. The purpose of capital formation is to enable a greater and more varied production of goods. Capital investment is not in itself the principal goal.

The Soviet pattern of economic development does not provide an accurate measure of alternatives for investment. Because prices measure only cost, there is the constant urge to choose that investment which will give the lowest cost per unit of output, regardless of its general availability. This weakness may be circumvented in part by better planning of projects, by a system of prices reflecting actual costs of production, and by closer adherence to Plan profits. Ignorance of the true economic value of a particular investment (scarcity as well as cost), however, inevitably tends to produce bottlenecks in production and supply because, in an economy of the Soviet type, demand is usually greater than supply.

D. Goals of Future Plans.

The failure of industry in Rumania to attain the goals of the First Five Year Plan raises some question as to the ability of industry to achieve the goals for investment of the Second Five Year Plan because Rumania cannot rely on substantial imports of capital goods from either the USSR or the European Satellites. To raise gross capital stocks by between 105 billion and 110 billion lei, Rumania

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must depend on its own resources. According to the Plan, about 70 to 80 percent of the increase in industrial production is to be achieved by increasing the productivity of labor, and the balance of the increase is to be attained by expanding the industrial labor force. 55/

To raise the productivity of labor 70 to 80 percent will be very difficult, requiring substantial investment in plant and equipment and adequate supplies of raw materials; better education, training, and improved morale of the workers; and, especially, a willingness by the workers to forego present consumption for savings. The Rumanian government now is aware of the importance of good morale and probably will strive to maintain investment in consumer goods industries and in agriculture at planned levels.

If the productivity of labor does not provide the necessary savings, investment must be reduced or standards of living must be lowered. The second alternative would likely be self-defeating because of its effects on the morale of workers and thus on productivity and savings.

Many of the other problems which arose during the First Five Year Plan can be circumvented. Experience already appears to have corrected the originally overoptimistic plan for the ratio of output to investment, as witnessed by the lower annual rate of increase in national income envisaged by the Second Five Year Plan. Replacements of capital goods are to absorb a far greater percentage of funds for investment, and industrial projects commenced or expanded under the First Five Year Plan are to be completed. The consumer goods industries and agriculture are to be assured of resources for investment. Funds allocated for such investment are not to be diverted to producer goods. Moreover, there is no reason to believe that the various technical miscalculations which were made under the First Five Year Plan cannot be corrected. For these reasons the Second Five Year Plan probably could be a greater success than the First.

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APPENDIX A

METHODOLOGY

1. General.

Until the meeting of the Second Party Congress of the PMR in December 1955, information on industrial investment and production in Rumania was meager. Annual announcements of Plans and statements regarding their fulfillment gave some slight indication of investment and production. Periodicals and newspapers were another general source of information.

At the Second Party Congress, however, a considerable amount of new information was released. Figures on actual investments in industry were given, thus permitting comparisons with planned investments. Details of production were presented in absolute figures, instead of percentages, as heretofore. For example, figures on actual production in 1938, 1950, and 1955 were given in tons for the iron and steel industry, in kilowatts for the electric power industry, and in pairs of shoes for the footwear industry. The release of this detailed information has permitted an analysis of industrial investment and production in Rumania.

2. Methodology for the Tables.

Table 1*: The source for total investment planned for 1951-55 was a translation of the official First Five Year Plan of Rumania. 56/ Actual total investment in 1951-55 and total investment planned for 1956-60 were announced at the Second Party Congress of the PMR. 57/

Table 2**: The sources for Table 2 are the same as those for Table 1.

Table 3***: Table 3 is derived from Table 2.

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- * P. 10, above.
 - ** P. 12, above.
 - *** P. 13, above.

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Table 4*: On the basis of an estimate of actual total investment in 1952, 58/ investment in 1951 and 1953 was computed from announcements of Plan fulfillment. 59/ Total investment was reported to be 11 percent greater in 1955 than in 1954. 60/ The difference between actual total investment of 63 billion lei and the sum of the investment for the first 3 years was used to develop the estimating equation, $x + 1.11x = 22.3$.

Planned total investment in 1951 and 1955 was given in source 61/, and planned investment in 1954 was given in source 62/. Planned investment in 1952 and 1953 was estimated on the basis of industrial and agricultural production. The estimates for these 2 years compare favorably with those published by the Economic Commission for Europe (ECE) in 1955. 63/

Table 5**: The source for Table 5 is the information released at the Second Party Congress. 64/ The estimates of the original Plan for 1950 were taken from source 65/.

Table 6***: The source for Table 6 is the same as that for Table 5.

Table 7****: The data for this table were taken from source 66/. Estimates for 1955 and 1956 were based upon official statements made at the Second Party Congress. 67/

Table 8 $\frac{1}{2}$: Estimates of the increase in production between 1951 and 1954 were found in source 68/. The estimated increase in production in 1955 was taken from a report on fulfillment of the Plan. 69/ The increase in production by the producer goods and the consumer goods industries in 1955 was estimated by using the percentage distribution of industrial production in 1955 $\frac{1}{2}$ as weights and by solving the estimating equation $60x + 40y = 14$, in which the sum of x and y equals the increase in total production in 1955.

- * P. 17, above.
- ** P. 19, above.
- *** P. 20, above.
- **** P. 21, above.
- $\frac{1}{2}$ P. 21, above.
- $\frac{1}{2}$ See Table 7, p. 21, above.

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According to reports presented at the Second Party Congress of the PMR, the average annual increases under the First Five Year Plan were 15 percent for producer goods and 12 percent for consumer goods. 70/ Such increases are not reconcilable with the reported annual increases shown in Table 8 and cast doubt on the reliability of one or more of the measures of the growth of industrial production. It may be that the lower rates of growth reflect a change in the base for pricing. Whatever the explanation, the annual increases given each year in the reports of fulfillment of the Plan, shown in Table 8, appear to be the better measure of annual growth.

Table 9*: The estimates of Rumanian national income are a composite of many sources. Investment was said to be 29 percent of total national income in 1953 and slightly more than 20 percent of national income for the entire period of the First Five Year Plan. 71/ Because actual investment in 1952 is known and the figure for 1953 can be computed from reports of fulfillment of the Plan, national income in 1953 and other years can be estimated. National income in 1953 was given as twice that in 1948 72/; and in 1955, as 2.5 times that in 1948. 73/ National income in 1955 also was reported as having been twice that in 1938, 74/ as 1.9 times that in 1950, 75/ and as 19 percent greater than that in 1954. 76/ Figures for national income in 1951 and 1952 were based upon estimates. The planned increase in national income in 1951 was 23 percent above that in 1950. Industrial production actually increased about 29 percent, and agricultural production also probably increased. The estimate of 26 percent used by ECE seemed reasonable. 77/ The estimate for national income in 1952 also was based on the ECE estimate, on an increase in industrial production of about 23 percent compared with 1951, and on the fact that 1952 was a very poor agricultural crop year.

The contribution of industry to national income in 1949 and 1955 was taken from source 78/; in 1953, from source 79/; and in 1952, from source 80/. The contribution of industry in 1950 was assumed to have been the same as in 1949. For the years 1951 and 1954, estimates were based on the high level of industrial production in 1951 and on the very low level in 1954.

* P. 23, above.

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Table 10*: Figures for total national income in 1950 and 1955 were taken from Table 9.** National income in 1950 was 25 percent greater than in 1949. 81/ The distribution of national income in 1949 and 1955 was given in source 82/.

Table 11***: This table is found in source 83/.

Table 12****: The sources for Table 12 are Tables 2 and 5. The estimates of investment in the sugar and footwear industries were based on planned investment, weighted by actual productivity, under the First Five Year Plan.

Table 13/: The estimates were based on statements that planned investment would amount to 23 percent of the national income in the period 1956-60 84/ and that national income in 1960 would be 50 percent greater than that in 1955. 85/ The rate of increase shown is consistent with both statements.

Figure 1//: The index for investment was computed primarily from Table 4./// Investment in 1950 was given in source 86/. Planned investment in 1951-55 was based on an annual increase of 17.5 percent. Investment in 1960 was estimated in Table 13./

Figure 2////: The chart, Figure 2, was based on an index computed from Table 8/ in which 1950 equals 100. Total production in 1950 was 37.3 percent greater than that in 1949, 87/ and production in 1949 was 40 percent greater than that in 1948. 88/ Production in 1955 was 2.2 times that in 1950. 89/ Total industrial production in 1960 is to be 70 to 75 percent greater than that in 1955. The estimates were based on an average increase of 72.5 percent planned for the entire 5-year period. 90/ The indexes of producer goods and consumer goods

- * P. 25, above.
- ** P. 23, above.
- *** P. 30, above.
- **** P. 35, above.
- / P. 37, above.
- // Following p. 16, above.
- /// P. 17, above.
- //// Following p. 18, above.
- / P. 21, above.

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for the years 1951-54 were derived from Table 7.* Estimates for 1960 came from source 91/.

Figure 3**: The index for actual national income was computed from Table 9.*** National income in 1953 was twice that in 1948, 92/ and national income in 1949 was 25 percent greater than that in 1948. 93/ The estimate of national income in 1960 is given in Table 13.**** The goal for national income in 1955 represented an increase of 62 billion lei above that in 1950. 94/

* P. 21, above.

** Following p. 26, above.

*** P. 23, above.

**** P. 37, above.

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APPENDIX B

GAPS IN INTELLIGENCE

Until December 1955, information on the general policy of Rumania on investment, especially on industrial investment, had to be culled from many varied sources of doubtful value. The release of information at the Second Party Congress of the PMR made it possible to evaluate previous sources, to correct previous estimates, and to develop a far truer picture of industrial investment and activity in Rumania.

A significant gap in intelligence is the inability to relate industrial production adequately to investment. Data on planned and actual investment in industry for the entire First Five Year Plan are available, but details concerning allocations in individual years are unknown. If, for example, figures on actual investment and production in the coal industry were available for each year, a better measure of the annual returns on such investment would have been possible.

Another gap in intelligence is the lack of any information on the alternatives for investment open to the central planning commission. Only an inference can be drawn concerning choices by the central planning commission among such alternatives.

There is also very meager information pertaining to national income. It is true that estimates of national income can be constructed from the several inferences found in many sources. Unfortunately, however, the extent to which the estimates underestimated or overestimated actual national income is not known.

Finally, little knowledge exists concerning the plans of the Rumanian government regarding coordination of investment within the Sino-Soviet Bloc. It is known that the government is keenly aware of the advantages and disadvantages of developing the country as a closed economy. What is not known is the extent to which the government will modify ambitious national plans for industrialization in favor of an over-all plan for the Soviet Bloc as a whole.

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APPENDIX C

SOURCE REFERENCES

In general, only source references which appear creditable have been used. The principal primary sources of information on industrial investment and production are official publications and announcements of the Rumanian government.

The information used is found primarily in the Daily Report (USSR and Eastern Europe) of the FBIS, in reviews of the Rumanian press, and in dispatches of the American Legation at Bucharest. These data have been supplemented by CIA reports.

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

"Documentary" refers to original documents of foreign governments and organizations; copies or translations of such documents by a staff officer; or information extracted from such documents by a staff officer, all of which may carry the field evaluation "Documentary."

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

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